

Alhambra Resources Ltd.
Management's Discussion and Analysis of Financial Condition
and Results of Operations
For the Three Months Ended March 31, 2012 (US Dollars)

This management's discussion and analysis ("MD&A") focuses on key items from the unaudited consolidated financial statements of Alhambra Resources Ltd. (also referred to as "Alhambra" or the "Corporation") for the three months ended March 31, 2012 and the factors reasonably expected to impact future operations and results as prepared on May 28, 2012. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other matters may occur which could affect the Corporation in the future. This discussion should be read in conjunction with the unaudited consolidated financial statements of the Corporation for the three months ended March 31, 2012 and the related notes and the audited consolidated financial statements for the Corporation for the year ended December 31, 2011 and related notes. The financial statements have been prepared in accordance with International Financial Reporting Standards and are reported in US\$000's except as otherwise stated.

This MD&A was reviewed and approved by the Corporation's audit committee and board of directors on May 28, 2012. Additional information on the Corporation is available under the Corporation's profile on SEDAR at www.sedar.com.

Forward-Looking Information

Except for the statements of historical fact contained herein, certain statements contained in this MD&A constitute "forward-looking statements" as such term is used in applicable Canadian and US laws. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. In particular, any statements concerning the Corporation's ability to continue as a going concern as described, statements concerning the strategy of advancing the Uzboy Gold Deposit ("Uzboy") towards pre-feasibility, the formalization of a development plan, converting inferred resources to mineral reserves by conducting additional exploration and other factors and events described in this MD&A should be viewed as forward-looking statements to the extent that they involve estimates thereof. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and should be viewed as "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and other factors include, among others, the Corporation's liquidity and financial capacity, the Corporation's funding sources to meet various obligations, advancing the project towards pre-feasibility, formalizing a development plan, lack of financing in order to convert inferred resources to mineral reserves through additional exploration, costs and timing of exploration and production development, availability of capital to fund exploration and production development; political, social and other risks inherent in carrying on business in a foreign jurisdiction, the effects of a recessionary economy and such other business risks as discussed herein and other publicly filed disclosure documents. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could vary or differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements contained in this MD&A.

Forward-looking statements are made based on management's beliefs, estimates and opinions on the date the statements are made and the Corporation undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change, except as required by applicable law.

Measurement Uncertainty

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those reported. Significant areas requiring the use of management estimates include the determination of impairment of property, plant and equipment and exploration and evaluation costs, provisions, and assumptions used in calculating share-based compensation expense. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Business Overview

The Corporation was incorporated on January 27, 1993 and amalgamated with its wholly-owned subsidiaries, Signature Capital Corp. and Tarco Oil & Gas Ltd., effective January 1, 2002.

On July 31, 2007 the Corporation's shareholders approved a reorganization by way of an arrangement under the *Business Corporations Act* (Alberta) (the "Arrangement") involving the Corporation, its shareholders and a newly incorporated corporation, DOT Resources Ltd. ("DOT").

Under the Arrangement, which became effective on August 29, 2007, the Corporation divided its mineral assets between two separate publicly traded corporations. Except for the period from December 26, 2008 through September 15, 2009, the Corporation continued to hold and operate its gold producing assets situated in Kazakhstan. DOT holds and conducts exploration activities on the Corporation's former Canadian DOT property, situated near Kamloops, British Columbia ("DOT Property").

Pursuant to the Arrangement, the DOT Property was transferred to DOT at its carrying amount of \$944,666 in exchange for 30,000,000 common shares. Every shareholder of the Corporation received one (1) new common share and 0.21153 of a DOT common share for every one (1) common share of the Corporation held on the effective date of the Arrangement resulting in 15,000,000 DOT common shares held by Alhambra being distributed to Alhambra shareholders on a pro rata basis. As a result of the Arrangement, Alhambra holds 15,000,001 shares of DOT which represents approximately 27% of the 55,734,333 common shares of DOT currently outstanding. At March 31, 2012, the market trading value of the 15,000,001 DOT shares owned by Alhambra was CDN\$600.

On September 26, 2008 a statement of claim ("Kazakhstan Lawsuit") was filed in the Specialized Interdistrict Economical Court of the East-Kazakhstan Oblast ("Lower Court") of the Republic of Kazakhstan ("Kazakhstan") by the Vendors seeking to invalidate Alhambra's ownership of its Kazakhstan Subsidiaries. The basis for the claim was that the Corporation's 100% owned subsidiary, Alhambra Overseas Limited, incorporated to hold Alhambra's interest in the Kazakhstan Subsidiaries, was not incorporated at the time the Agreement was initially entered into, despite the fact that such incorporation was subsequently completed soon thereafter. Alhambra applied to the Lower Court to have the litigation dismissed for the lack of jurisdiction, however, such application was denied as was the appeal to the Civil Cases Review Board of the East-Kazakhstan Oblast Court (the "Review Board"). As a result, hearings in the Lower Court on the merits of the case began on November 17, 2008 and were completed on November 24, 2008. On November 25, 2008 the Lower Court rendered its decision in favor of the Vendors. The Corporation appealed the Lower Court's decision to the Review Board, but on December 26, 2008 the Review Board issued its ruling upholding the Lower Court's decision. The Corporation appealed to the next level of the court system in Kazakhstan which was the Supervisory Chamber of the East-Kazakhstan Oblast Court whose decision, rendered on February 27, 2009, again upheld the decisions of the previous courts. On January 27, 2009 the ownership of the Kazakhstan Subsidiaries was re-registered back in the names of the Vendors giving effect to the court decisions. As a result of the decision, the assets and liabilities related to the Kazakhstan mineral operations were written off as of December 26, 2008 as the Corporation ceased to control the Kazakhstan Subsidiaries.

On April 16, 2009 the Corporation filed an appeal with the Supreme Court of Kazakhstan ("Supreme Court") asking the Supreme Court to overturn the decisions of the lower courts. The Supreme Court hearing was held on August 12, 2009 at which time the Supreme Court reversed the decisions of the Lower Courts and dismissed the Vendors' claim. On September 15, 2009 the ownership of the shares of the Kazakhstan Subsidiaries was re-registered in the name of Alhambra and the Corporation commenced operations on that date.

Selected Annual Operating and Financial Information

| | 2012 | 2011 |
|--|-------------|-------------|
| Operating (for the three months ended March 31 except as noted below): | | |
| Mining: | | |
| Waste mined (Tonnes ("T")) | 321,953 | 513,526 |
| Ore stacked (T) | 28,420 | 110,740 |
| Grade of ore mined (Grams/T) | 0.51 | 1.00 |
| Recoverable gold mined (Troy ounces (oz)) ⁽¹⁾ | 305 | 2,318 |
| Gold sales (ozs) | 1,846 | 1,770 |
| Gold inventory (ozs) ^{(2) (3)} | - | 615 |
| Gold in work in progress (ozs) ⁽³⁾ | 40,298 | 41,224 |
| Financial (for the three months ended March 31 except as noted below): | | |
| Revenue (\$) | 3,127 | 2,466 |
| Average gold price (\$/oz) | 1,694 | 1,393 |
| Operations expenses (\$) | 1,641 | 1,502 |
| Operations expenses (\$/oz) | 889 | 849 |
| Net (loss) (\$) | (160) | (1,686) |
| Net (loss) per share: | | |
| Basic (\$/share) | (0.00) | (0.01) |
| Diluted (\$/share) | (0.00) | (0.01) |
| Capital expenditures (\$) | 737 | 534 |
| Total assets (\$) ⁽³⁾ | 113,628 | 112,339 |
| Shareholders' equity (\$) ⁽³⁾ | 73,806 | 72,146 |
| Common shares outstanding at year end ⁽³⁾ | 104,132,059 | 104,132,059 |

Notes:

1. Recoverable gold mined is estimated to be equal to 65% of estimated total gold stacked.
2. Gold inventory represents 615 ounces of gold in transit to the refinery for final processing and sale.
3. Amounts for 2011 are as of December 31, 2011.

The Corporation continues to mine substantially all its ore from the east zone of Uzboy. During the three months ended March 31, 2012, the Corporation sold a total of 1,846 ounces ("ozs") of gold for total proceeds of \$3,127. This compares to sales of 1,770 ozs and \$2,466 of sales during the three months ended March 31, 2011. At December 31, 2010, an estimated 41,224 ozs of gold had been stacked and was in various stages of processing for sale ("work in progress") and the Corporation had 615 ozs of gold inventory in transit. During the three months ended March 31, 2012 an additional estimated 305 ozs of gold was stacked which, after selling 1,846 ozs, resulted in an estimated balance of 40,298 ozs in work in progress at March 31, 2012.

During the three months ended March 31, 2012, the Corporation mined a total of 321,953 T of waste and stacked 28,420 T of ore at an average gold grade of 0.51 grams/T ("g/t"). This compares to 513,526 T of waste mined and 110,740 T of ore stacked at an average gold grade of 1.00 g/t during the three months ended March 31, 2011.

Financial Review

Segmented information

The Corporation and its subsidiaries operate in one reportable segment, the exploration for and development of mineral properties in Kazakhstan and therefore presentation geographically is the most appropriate. Identifiable assets, revenues and net income (loss) in each of its geographic are as disclosed in note 17 ('*Operating segments*') to the March 31, 2012 unaudited consolidated financial statements.

Sales revenue

Revenue is recognized from the sale of gold when the price is determinable, the product has been delivered and title has been transferred to the customer and collection of the sales price is reasonably assured. The Corporation ships cathodic sediment to a refinery in Italy where the final refining process takes place and the gold is sold. The Corporation sells all of its gold to one supplier.

During the three months ended March 31, 2012 the Corporation recognized \$3,127 in revenue from the sale of 1,846 ozs of gold at an average price of \$1,694/oz. During the three months ended March 31, 2011 the Corporation recognized \$2,466 in revenue from the sale of 1,770 ozs of gold at an average price of \$1,393/oz.

Net smelter royalty

The net smelter royalty ranges from 2.5 to 3.0% (dependent on the price of gold) of gross revenue. During the three months ended March 31, 2012, the Corporation recognized \$94 in net smelter royalty expenses as compared to \$74 for the three months ended March 31, 2011, which is 3% (2011 – 3%) of the revenue recognized in the period.

Cost of sales

Operating expenses consist of all costs associated with the production of gold, (including direct costs incurred in the mining, leaching and resin stripping processes (“process operating costs”), Mineral Extraction Tax (“MET”), transportation and refining of the cathodic sediment. All process operating costs are charged to work in progress and are expensed on the basis of the quantity of gold sold as a percentage of total recoverable gold mined.

Operating costs for the three months ended March 31, 2012 were \$1,641 or \$889/oz sold as compared to \$1,502 or \$849/oz of gold sold for the three months ended March 31, 2011.

Included in the three month 2012 operating cost amount is \$112 or \$61/oz related to the amortization of the bump-up to fair value from the estimated cost of work in progress on re-valuation in 2009. Cash operating costs were therefore \$828/oz. In the three months ended March 31, 2011, \$246 or \$139/oz of similar costs were included in operating costs resulting in the cash cost of gold sold for this period of \$710/oz.

Administrative expenses

| For the three months ended March 31, | 2012 | 2011 |
|--------------------------------------|--------|----------|
| Canada | | |
| Share-based compensation | \$ 197 | \$ 1,355 |
| Cash based corporate overhead costs | 373 | 707 |
| Total Canada | 570 | 2,062 |
| Kazakhstan | 172 | 457 |
| | \$ 742 | \$ 2,519 |

Administrative expenses for the three months ended March 31, 2012 were \$742, a decrease of \$1,777 from the \$2,519 recorded in the three months ended March 31, 2011. Of the totals, \$172 related to the Saga Creek operations for the three months ended March 31, 2012 as compared to \$457 for the comparable three month period in 2011.

Included in the \$172 recorded in the three months ended March 31, 2012 was a recovery of \$157 of penalties that had been accrued in prior periods related to the assessment by the tax authorities in Kazakhstan disallowing certain income tax deductions (see note 20 (*Legal challenge of tax assessment*)) to the March 31, 2012 unaudited consolidated financial statements and the Legal challenge of tax assessment section of the MD&A). Included in the \$457 recorded in the three months ended March 31, 2011 was \$131 of potential penalties related to the assessment by tax authorities in Kazakhstan of Historical Costs (see note 20 (*Legal challenge of tax assessment*)) to the March 31, 2012 unaudited consolidated financial statements and the Legal challenge of tax assessment section of the MD&A). When the effects of these two tax related items are removed from the Saga Creek administration costs, the remaining administrative cost amounts for Saga Creek were comparable at \$329 and \$326 for the three months ended March 31, 2012 and 2011, respectively.

The remainder of administrative expenses relates to corporate activities and is comprised of share-based compensation and cash based corporate overhead. Share-based compensation totaled \$197 for the three months ended March 31, 2012 as compared to \$1,355 for the three months ended March 31, 2011. Due primarily to the high volatility of the Corporation’s stock price, this calculation results in the value assigned to stock options approaching the actual option grant price. As a result, the higher the option price, the higher the value assigned to the options for purposes of share-based compensation expense. Both amounts relate primarily to the amortization of the value

calculated for the 3,050,000 options granted in January of 2011 at a price of \$1.05 per share however by March 31, 2012, three quarters of the those options had fully vested resulting in the significant decrease in share-based compensation expense.

Cash based corporate overhead expenses for the three months ended March 31, 2012 totaled \$373 as compared to \$707 for the three months ended March 31, 2011. Professional costs accounted for the biggest component of the cost decrease as expenses in the three months ended March 31, 2011 associated with the conversion to International Financial Reporting Standards (“IFRS”) and the 2010 year end audit greatly exceeded the Corporation’s estimate and accrual in 2010 with the difference being expensed in 2011. As part of the audit, work was done to remove the audit qualification that Alhambra received on its 2008 annual financial statements because of the loss of the Kazakhstan subsidiaries. With the re-acquisition on September 15, 2009 it was then possible to clear up that qualification which will be required in order for the Corporation to pursue a dual listing on an Asian exchange. As the Corporation maintains a small professional accounting staff, it was necessary to contract professional help to assist with the conversion, particularly considering that a significant amount of time of Alhambra’s employees was being devoted to the work necessary to pursue a dual listing on an Asian exchange. In addition, in the first quarter of 2011 the Corporation incurred professional costs associated with a review of the Corporation’s resources as part of a plan to complete a National Instrument 43-101 report.

Depletion and depreciation

Depletion and depreciation expense for the three months ended March 31, 2012 was \$416 as compared to \$445 for the three months ended March 31, 2011. Substantially all the amounts for both years relate to the Kazakhstan operation.

Depletion and depreciation charged on the fair value assigned to mineral properties as a result of the re-acquisition at September 15, 2009 is charged to work in progress on the basis of the volume of gold produced as a percentage of total estimated gold resources. It is then expensed on the basis of the quantity of gold sold as a percentage of the quantity of gold estimated to be in work in progress. For the three months ended March 31, 2012, \$376 (three months ended March 31, 2011 - \$1,183) of depletion and depreciation was charged to work in progress. The major component of this cost is the depletion of the revaluation amount assigned to the carrying cost of mineral assets. The lower production volumes for the three months ended March 31, 2012 as compared to the same three month period in 2011 were the cause both of the reduced depletion and depreciation charged to work in progress and the smaller actual depletion and depreciation expense recorded.

Finance costs

| For the three months ended March 31, | 2012 | 2011 |
|---|-----------------|--------------|
| Interest on overdue taxes | \$ 34 | \$ 167 |
| Reversal of accrued interest on successful tax appeal | (125) | - |
| Extension of warrants | 1,394 | - |
| Unwinding of the discount on provisions | 2 | 89 |
| Interest on trade payables | 22 | - |
| Foreign exchange loss (gain) | (83) | (224) |
| Total finance costs | \$ 1,244 | \$ 32 |

During the three months ended March 31, 2012 the Corporation recorded total net finance costs of \$1,244 as compared to \$32 for the three months ended March 31, 2011.

Interest accrued on overdue taxes relates to the taxes being assessed by the government of Kazakhstan that the Corporation has been appealing. For the three months ended March 31, 2012 the \$34 reported relates to interest on the Commercial Discovery Bonus assessed late in 2011 (see note 22 (*Commercial Discovery Bonus*) to the March 31, 2012 unaudited consolidated financial statements and the Commercial Discovery Bonus section of this MD&A). For the three months ended March 31, 2011 interest on overdue taxes related to Historical costs of \$115, the 2009 MET of \$37 and disallowance of deductions related to corporate income tax of \$15. During the three months ended March 31, 2012, \$125 of interest that had been accrued on the disallowance of deductions related to corporate income tax was reversed as a result of the positive decision reached by the tax court (see note 20 (*Legal challenge of tax assessment*) to the March 31, 2012 unaudited consolidated financial statements and the Legal challenge of tax assessment section of this MD&A).

During the three months ended March 31, 2012 the Corporation charged \$1,394 to financing costs representing the value attributed to the extension of the expiry dates of 2,500,450 warrants which expiry date had already been extended to February 8, 2012, 5,388,690 warrants originally scheduled to expire on February 19, 2012 and 3,913,635 warrants originally scheduled to expire on March 28, 2012 (see note 14(d) ('Warrants') to the unaudited consolidated financial statements and the Share data section of this MD&A).

Income tax expense

Income tax expense recorded relates entirely to Saga Creek. As Saga Creek is a profitable entity, it pays income tax under Kazakhstan law. For the three months ended March 31, 2012, the Corporation recorded an income tax recovery of \$852 as compared to a similar recovery of \$423 for the three months ended March 31, 2011. The recovery recorded for the three months ended March 31, 2012 was comprised of a current tax recovery of \$308 (three months ended March 31, 2011 – expense of \$55) and a deferred tax recovery of \$544 (three months ended March 31, 2011 – deferred tax recovery of \$478).

The current income tax recovery of \$308 recorded in the three months ended March 31, 2012 is comprised primarily of a reversal of accrued income taxes of \$315 related to the assessment by the tax authorities in Kazakhstan on the disallowance of deductions (see note 20 '*Legal challenge of tax assessment*' to the March 31, 2012 unaudited consolidated financial statements and the Legal challenge of tax assessment section of this MD&A).

At September 15, 2009 Saga Creek recorded a large future income tax liability associated primarily with the fair value assigned to Saga Creek's assets and liabilities. The Corporation is recording future income tax recoveries related to these assets as they are amortized to depletion and depreciation. As a result, Saga Creek recognized a recovery of deferred income tax liabilities previously recorded of \$544 during the three months ended March 31, 2012 as compared to a recovery of \$478 for the three months ended March 31, 2011.

Effective January 1, 2009 the corporate tax rate in Kazakhstan was reduced to 20% from the previous rate of 30%. Also effective January 1, 2009 the Government of Kazakhstan introduced an excess profits tax. This tax is a progressive tax in that as profits increase, the rate of tax on the increment in excess profits, as defined, also increases. The Corporation has not yet been subject to any excess profits tax.

Net loss

The Corporation recorded a net loss of \$160 for the three months ended March 31, 2012 compared to a net loss recorded in the three months ended March 31, 2011 of \$1,686.

Kazakhstan mining operations for the three months ended March 31, 2012 reported net earnings of \$1,816 as compared to net earnings totaling \$420 for the three months ended March 31, 2011. The \$1,396 improvement in net earnings for mining operations is primarily the result of higher gold prices and recoveries of income taxes, penalties and interest related to the positive rulings regarding the tax assessment.

For the three months ended March 31, 2012, Canadian corporate losses totaled \$1,976, a decrease of \$130 over the \$2,106 recorded in the three months ended March 31, 2011. Lower share-based compensation expenses, partially offset by the recording of financing costs related to the extension of the expiry dates of outstanding warrants, accounted for the improvement.

Based on a weighted average number of common shares of 104,132,059 and 104,020,851 for the three months ended March 31, 2012 and 2011, respectively, the Corporation's basic and diluted net loss per common share was \$0.00 for 2012 and \$0.01 for 2011.

For both three month periods ended March 31, 2012 and 2011, options and warrants representing all the options and warrants outstanding were excluded from the dilutive earnings per share calculation as they would be considered anti-dilutive.

Summarized Cash Flows

| For the three months ended March 31, | 2012 | 2011 |
|---|----------|------------|
| Net cash (used in) operating activities | \$ (364) | \$ (1,040) |
| Net cash provided from financing activities | - | 20 |
| Net cash (used in) investing activities | (300) | (494) |

Operating cash flow

For the three months ended March 31, 2012, net cash used in operating activities was \$364 which was primarily attributed to a positive cash flow from mining operations offset primarily by the increase in work in progress inventories.

For the three months ended March 31, 2011, net cash used in operating activities was \$1,040 which was primarily attributed to a net loss for the period of \$1,686 and an increase in work in progress inventories.

Financing cash flow

The Corporation is currently restricted from raising capital through the issue of common share equity because of the Government of Kazakhstan's pre-emptive right (see note 21 (*Government of Kazakhstan pre-emptive right*)) to the unaudited consolidated financial statements and the Government of Kazakhstan pre-emptive right section of this MD&A).

Investing cash flow

For the three months ended March 31, 2012, net cash flow used in investing activities was \$300, primarily as a result of the acquisition of property, plant and equipment of \$737 partially offset by an increase in accounts payable related to investing activities of \$437.

For the three months ended March 31, 2011, net cash flow used in investing activities was \$494, primarily as a result of the acquisition of property, plant and equipment of \$534 partially offset by an increase in accounts payable related to investing activities of \$40.

Selected Balance Sheet Items

Trade and other receivables

Trade and other receivables primarily represent refundable Value Added Tax ("VAT") and amounts receivable from the sale of gold. VAT is paid by the Corporation on goods and services purchased in Kazakhstan and utilized in its operations. At March 31, 2012 the balance outstanding on account of VAT was \$854 (December 31, 2011 - \$624). The Corporation applies for a refund of VAT in the first quarter following the end year for which the VAT had been paid. The refund claim is subject to audit by the tax authorities in Kazakhstan with the refund due at the end of the second quarter. Historically, the Corporation has been successful in collecting all amounts due.

Amounts outstanding for the sale of gold totaled \$628 at March 31, 2012 (December 31, 2011 - \$nil). The Corporation recognizes revenue from the sale of gold when the price is determinable, the product has been delivered and title has been transferred to the customer and the collection of the sale proceeds is reasonably assured. Accounts receivables typically arise when a gold sale is made near a month end but payment is not made until the following month. Normally, the time between shipment and the receipt of cash is approximately two weeks.

Deposits and prepaid expenses

At March 31, 2012 the Corporation had \$2,491 in deposits and prepaid expenses as compared to \$2,471 at December 31, 2011. Of these amounts, \$ 2,236 (December 31, 2011 - \$2,130) has been incurred by the Corporation in its advancement of a potential listing on an Asian stock exchange. Once the Corporation completes the financing associated with the listing, these costs will be charged to share capital. If the listing is abandoned, these costs will be charged to administrative expense. Prepaid expenses arise in Kazakhstan as the Corporation is often required to place a deposit down upon signing of a contract for the purchase of goods and services.

Inventories

The Corporation's inventory comprises mostly work in progress in which all costs associated with the production of gold, including direct costs incurred in the mining, leaching and resin stripping processes, as well as a portion of depreciation of equipment used in each process, and depletion on mineral assets, are charged to work in progress inventory and expensed based on the quantity of gold sold as a percentage of gold mined. At March 31, 2012 the Corporation estimated that there was approximately 40,298 ozs of gold in work in progress (December 31, 2011 – 41,224 ozs) at a carrying cost of \$31,929 (December 31, 2011 - \$30,910). The Corporation reclassifies the portion of this inventory that it does not expect to sell in the next year as non-current. At March 31, 2012, the Corporation classified 30,298 ozs (\$22,182) (December 31, 2011 – 31,224 ozs and \$17,704) as non-current.

At March 31, 2012, the Corporation also had \$1,079 (December 31, 2011 - \$1,074) of raw materials and supplies inventory which is used in its operations and \$nil (December 31, 2011 - \$654) which represents the cost of nil ozs (December 31, 2011 - 615 ozs) of gold that was in transit to the refinery for final processing and sale at March 31, 2012 (December 31, 2011).

Trade and other payables

At March 31, 2012 the Corporation had outstanding \$7,542 in trade and other payables (December 31, 2011 - \$7,520). The credit terms that govern the Corporation's relationship with its suppliers are such that the majority of all amounts outstanding are due within one month.

Deferred tax liabilities

At March 31, 2012 the Corporation has \$31,982 (December 31, 2011 – \$32,390) in deferred tax liabilities that relate primarily to the fair value assigned to Uzboy on the re-acquisition of control of Saga Creek.

Discussion on Expenditures

2012 Capital Expenditures

During the three months ended March 31, 2012 the Corporation recorded capital expenditures of \$737 of which \$736 related to activities in Kazakhstan. Of that total approximately \$46 relates to buildings, machinery and equipment used in the operations in Kazakhstan. The remaining \$690 relates to the Corporation's 2012 exploration program which is detailed below.

During this period Alhambra completed 4,804 m of exploration core drilling which was focused on two projects, Shirotnaia, one of the Corporation's advanced exploration projects, and the second being Zhanatobe, one of its early stage exploration projects.

The results of a remote sensing study conducted in 2011 over the entire license area and 1,360 square kilometres ("km²") of gravity and magnetic surveys which were completed on the eastern side of the license area were interpreted and released. Maiden NI 43-101 resource estimates were finalized and the results were released in February 2012 for two of its three advanced exploration projects, Dombraly and Shirotnaia. The reports been filed on SEDAR.

Assaying of more than 10,400 drill samples from the 2011 drill program was pushed into 2012 due to the significant amount of drilling completed in the fourth quarter of 2011. The following samples were awaiting assaying at the Stewart Kyrgyzstan laboratory:

- Dombraly – 6,026 core,
- Shirotnaia – 532 core,
- Zhanatobe – 1,047 rotary air-blast ("RAB"),
- Vasilkovskoe East – 1,172 soil,
- Kontaktovy – 984 soil,
- Zhusaly – 653 soil.

By the end of the first quarter of 2012, 7,605 drill samples had been assayed as follows:

- Dombraly – 6,026 core,

- Shirotnaia – 532 core,
- Zhanatobe – 1,047 RAB.

All assay results for the 7,605 drill samples have been released (see News Release dated April 24, 2012 for the Dombraly results and the News Release dated May 1, 2012 for the Shirotnaia and Zhanatobe results).

In addition, due to the core drilling completed in the first quarter of 2012, 3,104 additional drill samples (1,529 from Shirotnaia and 1,575 from Zhanatobe) were exported to the Stewart Kyrgyzstan laboratory on March 30, 2012. Assay results are pending.

Shirotnaia

At Shirotnaia, an 18 core hole (3,691 m) drill program was initiated, of which 16 core holes (3,354 m) were completed by the end of the first quarter of 2012. Drilling continued post quarter end. The objective of this drill program was to define the orientation of the gold mineralization and to follow the mineralized zones along strike and at depth.

All drill holes encountered intervals of strong chlorite sericite alteration and sulphide mineralization as well as intervals of carbonate-quartz veins and veinlets. Some of these veinlets contained disseminated pyrite mineralization. A total of 2,508 samples were taken, of which 1,529 samples had been shipped to the Stewart Kyrgyzstan laboratory prior to the end of the quarter. Assay results are pending. The remaining 979 samples are being prepared for export.

In addition, Alhambra received the results of an initial independent NI 43-101 gold resource estimate (the “Shirotnaia Estimate”) for Shirotnaia (see News Release dated February 28, 2012). The resources identified in the Shirotnaia Estimate were 645,000 ounces (“ozs”) of Inferred mineral resources contained in 34.6 million tonnes grading 0.58 grams per tonne gold (“g/t Au”) and an additional 71,000 ozs of Indicated mineral resources contained in 2.9 million tonnes grading 0.76 g/t Au were identified using natural cut-off grades of 0.1 g/t Au for oxide gold mineralization and 0.2 g/t Au for transitional and primary gold mineralization respectively.

The Shirotnaia Estimate included the results of 73 core holes (9,597 m) and 43 reverse circulation (“RC”) holes (2,249 m). Due to the timing of the Estimate, it did not incorporate the analytical results for three core holes (489 m) from the 2011 drilling program as these drill samples were still in the process of being assayed. The assay results for the three core holes were news released on May 1, 2012. These three holes returned 12 mineralized intervals ranging in width from 1.0 to 29.5 m that had grades from 0.2 g/t Au to 2.44 g/t Au. The best intercepts were 2.44 g/t Au over 3.0 m and 1.11 g/t Au over 2.7 m. The results will be included in the current geological model and in the next Shirotnaia resource estimate.

Zhanatobe

A core drilling program was initiated at Zhanatobe with the objective of verifying the gold anomalies established by RAB drilling in 2010. Nine core holes (1,449 m) were drilled. Numerous intervals of intensive hydrothermal alteration, pervasive silicification, quartz veinlets and sulfide mineralization were intercepted. Assay results for all the 1,047 samples have been released (see News Release dated May 1, 2012).

Dombraly

Alhambra received the results of an initial independent NI 43-101 gold resource estimate (the “Dombraly Estimate”) for Dombraly (see News Release dated February 7, 2012). The resources identified in the Dombraly Estimate were 301,000 ounces (“ozs”) of Inferred current mineral resources contained in 9.3 million tonnes grading 1.01 g/t Au and an additional 22,000 ozs of Indicated current mineral resources contained in 0.60 million tonnes grading 1.22 g/t Au using natural cut-off grades of 0.13 g/t Au, 0.10 g/t Au and 0.20 g/t Au for the low grade stockpile, pit infill and in-situ mineralized zones respectively.

The Dombraly Estimate, included the results of 23 core holes (5,835 m) and 37 reverse circulation (“RC”) holes (880 m). Due to the timing of the Estimate, the Dombraly Estimate did not incorporate the analytical results for the 32 core hole (5,528 m) drilling program which was completed at the end of October 2011. These drill samples were assayed in January 2012 and the results have been received, interpreted and released in late April 2012. Two new zones (i.e. lenses) of gold mineralization were discovered and at least five known zones – significantly extended and

upgraded. A northern extension of lens 1 was identified as being about 120 m long. The intercepts in this part of the lens range from 0.77 g/t Au over 20.8 m to 9.95 g/t Au over 1.5 m. Drilling of the southern part of the same lens discovered 14.7 m of oxide mineralization grading 3.57 g/t Au. Three of four mineralized zones located on the southern edge of the deposit were extended by at least 60 m and remain open to the south. The best result returned here by one of the zones was 1.52 g/t Au over 3.0 m of oxide mineralization. Several new parts of lens 2 were discovered which have extended the mineralization by at least 240 m along strike and by 65 to 140 m along the dip. The best intercepts were 4.40 g/t Au over 14.1 m and 2.01 g/t Au over 9.0 m. Two new mineralized lenses have been discovered returning intercepts of 4.0 m at 1.18 g/t Au and 8.2 m at 1.66 g/t Au and remaining open along strike in the northerly direction.

Resources By Deposit

Alhambra's current total corporate NI 43-101 gold resources are as noted below:

| Project | Measured (M) | | | Indicated (I) | | | M + I | | | Inferred | | |
|----------------|--------------|-------------|---------|---------------|-------------|---------|------------|-------------|-----------|------------|-------------|-----------|
| | Tonnes | Grade (g/t) | Ounces | Tonnes | Grade (g/t) | Ounces | Tonnes | Grade (g/t) | Ounces | Tonnes | Grade (g/t) | Ounces |
| Uzboy (1) | 14,317,200 | 1.52 | 700,000 | 7,009,500 | 1.22 | 275,500 | 21,326,700 | 1.42 | 975,500 | 11,258,200 | 1.17 | 421,700 |
| Dombraly (2) | - | | - | 559,000 | 1.22 | 22,000 | 559,000 | 1.22 | 22,000 | 9,317,000 | 1.01 | 301,000 |
| Shirotnaia (3) | - | | - | 2,900,000 | 0.76 | 71,000 | 2,900,000 | 0.76 | 71,000 | 34,577,000 | 0.58 | 645,000 |
| TOTAL | 14,317,200 | 1.52 | 700,000 | 10,468,500 | 1.09 | 368,500 | 24,785,700 | 1.34 | 1,068,500 | 55,152,200 | 0.77 | 1,367,700 |

- (1) Effective as of Dec 31/07 as per ACA Howe per news release dated Apr 8/08 at a 0.40 g/t cut-off.
- (2) Effective as of Nov 27/11 as per ACA Howe per news release dated Feb 7/12 using natural cut-off grades of 0.13 g/t, 0.1 g/t and 0.2 g/t for the low grade stockpile, pit infill and in-situ mineralized zones respectively.
- (3) Effective as of Jan 9/12 as per ACA Howe per news release dated Feb 28/12 using cut-off grades of 0.1 g/t for oxide gold mineralization and 0.2 g/t for transitional and primary gold mineralization respectively.

Capital Expenditure Activity Subsequent to March 31, 2012

Shirotnaia

The first stage of the Shirotnaia exploration program, including the drilling of 18 core holes (3,691 m) was completed in April. A total of 3,691 samples were taken of which 2,438 samples are awaiting to be exported.

Uzboy

Alhambra's independent consultants continued to work on updating the Uzboy NI 43-101 resource estimate and Preliminary Economic Assessment. It is anticipated that both of these updates will be completed and reported on prior to mid-year 2012.

Remote Sensing and Gravity and Magnetic Survey

The interpretation of the 1,360 km² (Phase one) ground gravity and magnetic surveys over the Dombraly-Shirotnaia gold trend was completed and resulted in the identification of 18 new primary exploration targets which were correlated with the results of an ASTER satellite imagery analysis (see News Release dated April 10, 2012).

These 18 new primary targets were prioritized, with five of them deemed as being high priority. It is anticipated that a soil sampling program followed by a reverse circulation drilling program will be implemented in 2012 to further test the gold potential of these five high priority targets.

Administrative expenditures

For the three months ended March 31, 2012, administrative expenses totaled \$742, a decrease of \$1,777 from the total for the three months ended March 31, 2011 of \$2,519. Included in these amounts are \$172 and \$457 of administrative expenses related to Saga Creek operations for the three months ended March 31, 2012 and 2011, respectively. As noted above, after the effects of the penalties related to Saga Creek's tax assessment are accounted for, Saga Creek's administration expenses for the comparative three month periods ended March 31, 2012 and 2011 are virtually unchanged at \$329 and \$326, respectively.

The remaining \$570 of administrative expenses for the three months ended March 31, 2012 relates to corporate overhead costs which was a decrease of \$1,492 from the corporate overhead costs for the three months ended March 31, 2011 of \$2,062. Included in these amounts were share-based compensation expenses of \$197 and \$1,355 for the three months ended March 31, 2012 and 2011, respectively. The remaining \$373 and \$707 for the three months ended March 31, 2012 and 2011, respectively relate to corporate cash overhead expenses as detailed below.

Employee costs accounted for \$228 (61%) of the total corporate administrative costs for the three months ended March 31, 2012 as compared to \$292 (41%) for the three months March 31, 2011 year. The decrease was the result of additional consulting costs in 2011 in connection with the Corporation's early adoption of IFRS required as a result of the Corporation's investigation into a dual listing on an Asian stock exchange in 2011 offset in part by increased salaries for staff effective January 1, 2012.

Corporate professional costs, which include legal, auditing and outside consulting fees, totaled \$38 (10%) for the three months ended March 31, 2012 as compared to \$191 (27%) for the three months ended March 31, 2011. Professional costs were higher in 2011 as the Corporation's costs associated with the conversion to IFRS and the Corporation's audit were significantly higher than originally contemplated and accrued for during the 2010 year. As part of the audit, work was done to remove the audit qualification that Alhambra received on its 2008 annual financial statements because of the loss of the Kazakhstan subsidiaries. With the re-acquisition on September 15, 2009 it was then possible to clear up that qualification which will be required in order for the Corporation to pursue the Asian public listing. As the Corporation maintains a small professional accounting staff, it was necessary to contract professional assistance to help with the conversion, particularly considering that a significant amount of time of Alhambra's employees was devoted to the work necessary to pursue the listing on an Asian stock exchange. In addition, in the three months ended March 31, 2011, the Corporation incurred professional costs associated with a review of the Corporation's resources as part of a plan at that time to complete a National Instrument 43-101 report.

Costs related to the maintenance of Alhambra as a public Corporation including investor relations, stock exchange and corporate trust services and annual and quarterly report costs accounted for \$62 (17%) of total corporate administrative expenses for the three months ended March 31, 2012 as compared to \$159 (23%) for the three months ended March 31, 2011. During 2011, the Corporation carried out a more active investor relations program that has been curtailed in 2012 to conserve cash.

Office expenses for the three months ended March 31, 2012 totaled \$45 (12%) as compared to \$65 (9%) for the three months ended March 31, 2011.

Liquidity and capital resources

Alhambra operates in a capital intensive industry in which the demands for capital to finance exploration and development of its properties as well as its corporate overheads generally occur far in advance of projects being put on production and generating cash flow. While the Corporation generates cash flow from the production and sale of gold mined from the oxide zone of the Uzboy gold deposit, additional funds are required to enable Alhambra to add shareholder value through exploration and development and fund some of its working capital requirements. As a result, the Corporation depends on the capital markets to fund these activities. If the Corporation is unable to raise additional funds through these capital markets, the Corporation's ability to continue as a going concern is extremely doubtful. However, in order for the Corporation to raise funds through the issue of common shares, it must first get approval from the government of Kazakhstan to issue common shares (see note 21 (*'Government of Kazakhstan pre-emptive right'*) to the March 31, 2012 unaudited consolidated financial statements and the Government of Kazakhstan pre-emptive right section of this MD&A). The Corporation has filed an application with the Kazakhstan Ministry of Industry and New Technology ("MINT") to obtain approval to proceed at its discretion with the issue of common shares.

At March 31, 2012 the Corporation had \$221 in cash and \$7,585 in positive working capital. Included in other working capital is \$10,826 in work in progress related to 10,000 ozs of gold that the Corporation is estimating it will sell during the next twelve months.

Related party transactions

Balances and transactions between the Corporation and its subsidiaries have been eliminated on consolidation and are not disclosed in this section. Details of the transactions between the Corporation and other related parties are disclosed below.

(a) Compensation of key management personnel:

The remuneration of directors and other members of key management personnel during the three months ended March 31, 2012 and 2011 were as follows:

| For the three months ended March 31, | 2012 | 2011 |
|--------------------------------------|--------|----------|
| Short-term employee benefits | \$ 195 | \$ 192 |
| Share-based payments | 135 | 1,001 |
| Director fees | - | - |
| | \$ 320 | \$ 1,193 |

In addition to their salaries, executive officers also participate in the Group's share option program.

(b) Other transaction:

On August 29, 2007, the Corporation and DOT entered into an Administrative and Corporate Services Contract (the "Contract") whereby DOT agreed to engage the Corporation to provide management, administration and corporate services to DOT. The Contract provides for a monthly remuneration of CDN\$20 plus all reasonable out of pocket expenses and is for an indefinite term but may be terminated by either party upon providing 30 days prior written notice. During the three months ended March 31, 2012, the Corporation billed DOT CDN\$nil (2011 - CDN\$nil) under the Contract. The amount uncollected as of March 31, 2012 was CDN\$359 (2010 - CDN\$359). Effective January 1, 2011, the Corporation suspended billing DOT the monthly remuneration. In addition, as of March 31, 2012 the Corporation has advanced DOT CDN\$402 to enable DOT to meet working capital requirements while DOT is investigating options regarding financing. Currently the Corporation is not charging DOT any interest. The Corporation determined that there was a high probability that the amount owing from DOT was non-collectable and as such expensed \$767 owing from DOT during the fourth quarter of 2011 as part of corporate maintenance costs within administrative expenses.

Financial instruments

The fair values of cash and cash equivalents, trade and other receivables, trade and other payables are approximated by their carrying amounts because of their short-term nature or because they bear interest at market rates.

Commitments

Under its foreign investment contract which details the Corporation's rights and obligations associated with its licenses, the Corporation is obligated to spend a minimum of \$300 per year on exploration activities within its license territory. The contract also provides that any amounts spent in excess of the yearly minimum shall be credited against future requirements. To date the Corporation has exceeded the minimum amount required under the contract.

The Corporation is anticipating spending approximately \$3,000 on exploration activities during 2012, subject to suitable financing.

The Corporation has contractual obligations for various expenditures such as royalties, exploration and the cost of goods and services supplied to the Corporation. Such expenditures are predominantly related to the earning of revenue and in the ordinary course of business.

The Corporation has no other off balance sheet financing arrangements

Share data

The Corporation is authorized to issue an unlimited number of common shares of which 104,132,059 were outstanding as of March 31, 2012. The following table shows the detailed

number of shares, options and warrants outstanding as of March 31, 2012 and changes that have occurred up to the date of this MD&A.

| | As of March 31, 2012 | Change in 2012 | Issued in 2012 | As of May 28, 2012 |
|---|-------------------------|-------------------|-------------------|-----------------------|
| Common shares issued and outstanding | 104,132,059 | – | – | 104,132,059 |
| Common shares issuable upon exercise of stock options | 8,518,500 | – | – | 8,518,500 |
| Common shares issuable upon exercise of warrants | 11,802,775 | – | – | 11,802,775 |
| Common shares fully diluted | 124,453,334 | – | – | 124,453,334 |

Pursuant to a private placement completed in 2010, the Corporation issued 18,604,650 units at a purchase price of \$0.43 per unit for total gross proceeds of \$8,000. Each unit was comprised of one (1) common share and one-half (1/2) of a common share purchase warrant resulting in the issue of 18,604,650 common shares and 9,302,325 warrants. Each whole warrant entitled the holder thereof to purchase one common share of the Corporation at a purchase price of \$0.72 per common share on or before February 19, 2012 for 5,388,690 warrants and March 28, 2012 for 3,913,635 warrants. The Corporation sought and obtained approval from the TSX Venture Exchange (“TSX-V”) to extend the expiry date of the warrants to the earlier of February 19, 2013 for 5,388,690 warrants and March 28, 2013 for 3,913,635 warrants and a date which is sixty (60) days after receipt of a waiver of right of first refusal from the Government of Kazakhstan and the receipt of consent of MINT in respect of the issuance of common shares upon exercise of these warrants. The Corporation calculated the fair value of the extension of these warrants to be \$1,041.

During 2011 the Corporation had outstanding 2,500,450 warrants which were exercisable into common shares of the Corporation at a price of CDN\$0.45 per common share and were originally set to expire on August 11, 2011 however the Corporation sought and obtained approval from the TSX-V to extend the expiry date first to December 9, 2011 and then to February 8, 2012. The Corporation calculated the fair value of the two extensions obtained in 2011 to be \$146. During the three months ended March 31, 2012, the Corporation sought and obtained approval from the TSX-V to further extend the expiry date of these warrants to the earlier of February 11, 2013 and a date which is sixty (60) days after receipt of a waiver of right of first refusal from the Government of Kazakhstan and the receipt of consent of the MINT in respect of the issuance of common shares upon exercise of these warrants. The Corporation calculated the fair value of the extension received in the 2012 to be \$353.

Legal challenge of tax assessment

In 2010 Saga Creek was assessed amounts that tax authorities in Kazakhstan believed were owed by Saga Creek for Historical Costs, Mineral Extraction Tax (“MET”) as well as for their disallowance of certain corporate income tax deductions for the 2006 to 2009 taxation years (“CIT”). The original amount of the assessments including penalties and interest was approximately \$4.3 million. The Corporation believed that the assessments were not consistent with Kazakhstan legislation as well as the provisions of Saga Creek’s foreign investment contract which governs the Saga Creek’s licenses. As a result, Saga Creek filed a claim in the District Economical Court (“Economical Court”) seeking to have the assessment of the tax authorities, together with the applicable interest and penalties reversed. On May 13, 2011 the judge in charge of the case largely, but not wholly, rejected Saga Creek’s claim, upholding the assessments. On June 2, 2011, Saga Creek appealed this decision to the Appellate Chamber of Akmola Oblast Court (“Appellate Chamber”). On August 5, 2011 the Appellate Chamber upheld the Economical Court’s decision, again rejecting all Saga Creek’s arguments. Saga Creek filed a further appeal to the Cassation Chamber on August 22, 2011 which is the final court of appeal prior to the Supreme Court. On September 27, 2011 the Cassation Chamber ruled on Saga Creek’s appeal. Both Saga Creek and the tax authorities have one year to appeal all or part of the decision. The summary of decision of the Cassation Chamber including any recent updates is as follows:

- (a) The 2009 assessment for Historical Costs amounting to approximately \$1.6 million was cancelled. While the assessment was only for the 2009 year, the legislation as enacted had provided that the total obligation for Historical Costs of \$15.8 million be paid in equal quarterly installments over ten (10) years beginning January 1, 2009. As a result the Corporation reversed the full provision of \$13.8 million and an accrual of approximately \$2.5 million in interest and penalties to June 30, 2011, all of which were reversed in the third quarter of 2011.
- (b) The assessment for CIT amounting to approximately \$0.4 million was cancelled and sent back to the Specialized Inter-district Economic Court of the Akmola Oblast (“Akmola Court”) for review and re-consideration by a new panel of judges. On May 11, 2012 the Akmola Court rendered its decision and reversed a substantial portion of the assessment. As at December 31, 2011 the Corporation had accrued a total of \$0.6 million related to the CIT assessment including interest and penalties. The decision by the court reduced that amount to approximately \$0.04 million. As a result the Corporation has recorded a recovery of approximately \$0.6 million of which \$0.3 has been recorded as a recovery of current income taxes, \$0.1 has been recorded as a reduction in finance costs and \$0.2 as a reduction in administrative expenses.
- (c) The assessment for the 2009 MET in the amount of approximately US\$1.0 million was upheld. A total of approximately \$1.6 million related to the MET, interest and penalty has been paid by Saga Creek of which approximately \$0.7 million related to interest and penalties. The Corporation has decided to appeal the decision of the Cassation Chamber to the Supreme Court. The appeal was filed on May 14, 2012. It is anticipated that a preliminary hearing on the Group’s appeal will be held within 45 days of the date of the submission.

Saga Creek has made application to the Kazakhstan tax authorities to remove a lien filed against some of Saga Creek’s assets to secure the government’s claim for the indebtedness outstanding related to these tax assessments. To date this lien has been substantially reduced and as a result of the May 11, 2012 decision related to the CIT assessment, the Corporation believes that the remaining portion of the lien will be eliminated in the near future.

As a result of the decision by the Cassation Chamber that no Historical Costs are payable, the Corporation has, as indicated, reversed the original provision and all related penalties and interest that had previously been recorded. As indicated, the tax authorities and the public prosecutor have until September 27, 2012 to appeal the decision of the Cassation Chamber to the Supreme Court. While the Corporation understands that it is standard practice in Kazakhstan for the tax authorities to appeal unfavorable court rulings, there is no guarantee that they will in fact appeal. Even if they do appeal the decision, there is no guarantee that the Supreme Court will in fact choose to hear the appeal and if it agrees to hear the appeal there is no guarantee that it will reverse the decision of the Cassation Chamber. If however the final result is that the Supreme Court hears the appeal and decides in favor of the tax authorities, the effect on the Corporation’s Consolidated Statement of Financial Position as at March 31, 2012 would be to increase intangible assets by \$13.8 million, to increase trade and other payables by \$3.6 million, to increase provisions by \$15.8 million, and to increase loss by \$5.6 million. The increase in loss would result from a charge to administration expenses for penalties of \$2.3 million and a charge to finance costs of \$3.3 million for interest and unwinding of the discount on the Historical Cost provision. The Corporation is not aware of any legal arguments that would support overturning the decision of the Cassation Chamber.

Similarly, the tax authorities and the public prosecutor have until May 11, 2013 to appeal the decision of the Akmola Court related to the CIT assessment. Again there is no guarantee that the tax authorities will in fact appeal or that the appeal will heard and if it heard, there is no guarantee that it will reverse the decision of the Akmola Court. If however the final result is the appeal is heard and decided in favor of the tax authorities, the effect on the Corporation’s Consolidated Statement of Financial Position as at March 31, 2012 would be to increase trade and other payables by \$0.6 million and to increase loss by \$0.6 million as detailed above.

Government of Kazakhstan pre-emptive right

The Subsoil and Subsoil Use Act (the “Act”) in Kazakhstan grants the Government of Kazakhstan the first right of refusal to purchase any direct or indirect interest in any subsoil license or legal entity holding that license or the legal entity controlling the holder of the subsoil use license at market prices should the license or shares or instruments convertible or giving rights to shares (joint, the “Subsoil Use Assets”) come up for sale. As a result, before a company can accept an offer to sell its Subsoil Use Assets, it must first get approval from relevant Kazakhstan authorities. The Act

extends this obligation to require a company whose main business is connected with subsoil use in Kazakhstan to get approval should it desire to issue any common shares or issue any derivative instruments that are convertible into common shares. On April 21, 2011, the Corporation completed and filed an application with the relevant Kazakhstan agency to have pre-approved, any shares that may be issued upon conversion of outstanding warrants and options as well as requested that the Government of Kazakhstan pre-approve a private placement that the Corporation would contemplate doing in the near future to finance its exploration and development activities. This application was amended on August 16 and October 25, 2011 which included responses to certain questions received from the Kazakhstan agency. The Corporation has not yet received any decision from the Government of Kazakhstan with regards to its amended application. The Corporation is not aware of any such applications that have been rejected by the Government of Kazakhstan.

Commercial discovery bonus

On February 22, 2012 Saga Creek was given notice by Kazakhstan tax authorities that it was required to pay a Commercial Discovery Bonus (the "Bonus") based on the approved commercial reserves for Uzboy. According to the notification, Saga Creek is required by law to pay an amount equal to 0.1% of the commercial value of the 14,455.8 kg of gold and 48,100 kg of silver of reserves approved under Kazakhstan legislation for Uzboy. In addition, Saga Creek will be required to pay a 50% penalty plus interest at the prescribed rate which is approximately 17.5%. Payment of the Bonus was due on May 24, 2011. Saga Creek has filed a notice of objection with the tax authorities on the basis that Clause 6.2 (b) of its Subsoil use contract explicitly defines that Saga Creek "*pays a commercial discovery bonus at a zero rate*" which in effect means that Saga Creek is not obliged to pay this bonus at all.

The Corporation anticipates that the tax authorities will reject Saga Creek's appeal which will then require Saga Creek to appeal that decision to the Kazakhstan courts. The Corporation also anticipates that the lower courts in Kazakhstan will uphold the tax authorities' assessment which will necessitate Saga Creek filing its appeal to the Supreme Court of Kazakhstan. As the Corporation is uncertain at this time how the Kazakhstan courts will ultimately decide on Saga's obligation regarding the Bonus, the Corporation has recorded the Bonus and related interest and penalties up to March 31, 2012. Saga Creek has estimated the amount of the Bonus to be \$0.7 million and has charged this amount to intangible assets. In the three months ended March 31, 2012 the Saga Creek accrued \$0.04 in interest related to the unpaid Bonus bringing the total interest and penalties accrued to March 31, 2012 to approximately \$0.5 million.

Business Risks

The following describes the types of risks that the Corporation is exposed to in its operations and how it manages those risks.

World Economic Uncertainty

While certain economies and business sectors are recovering from the recent economic slowdown, there still remains stock market uncertainty and an international credit crisis that could adversely impact the Corporation's ability to raise sufficient working capital to sustain operations. The Corporation can neither predict the impact how this uncertainty will have on future results.

Exploration and development

The mining industry in general is inherently risky in nature. Mineral properties are often non-productive for reasons that cannot be anticipated in advance and a company may be subject to risks from operations, mining law, environmental regulations, permits and licenses and financing.

Focusing exploration efforts in areas in which a company has existing knowledge and expertise helps in its efforts to find reserves. Exploration activities rely on the exploration results collected at that time and on the professional judgment of people involved in the exploration business. There is no assurance that exploration programs will result in a discovery being made. In the event that a discovery is made, no assurance can be given that the discovery will result in either resources or reserves being established on the property. If reserves are established, it may take a number of years and substantial expenditures until production is achieved, during which time the economic feasibility of the project may change.

The long-term profitability of a company's operation will, in part, be directly related to the success of its exploration programs in finding additional reserves, which may be affected by a number of factors that are beyond the control of the company.

Operations risk

Operational risk relates to the ability to recover metal from an established mineral reserve. Using skilled and experienced professional staff helps to reduce this risk. Using the latest technologies and controlling costs to maximize profitability also assist in minimization of this risk. Other possible risks include changes in metal prices, unstable ground conditions, procurement of reagents, supplies and fuels and qualified operating personnel as well as severe weather conditions. Maintaining insurance can help to mitigate some of the operational risks.

Kazakhstan Country risk

When operating in a country such as Kazakhstan, a company is subject to economic, political and social risks inherent in doing business in that country. These risks include matters arising out of the policies of the government, economic conditions, imposition of, or changes to, taxes and regulations, foreign currency exchange fluctuations and the enforceability of contract rights.

The audited consolidated financial statements and MD&A reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Corporation. The future business environment may differ from management's assessment.

Regulations and mining law

Mining operations and exploration activities are subject to the laws and regulations of a country in which a company does business. There is no assurance that these laws will not change in the future.

Environmental factors

All phases of a company's operations are subject to environmental regulations in the country in which it operates. Environmental legislation may continue to evolve in a manner which requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. While a company may take the steps necessary to protect the environment around its operations, there is no assurance that future changes in environmental regulation, if any, will not adversely affect a company's operations or result in substantial costs and liabilities in the future.

Permits and licenses

The operation of a company requires permits from the government of the country in which the company operates. There can be no assurance that a company will be able to obtain all necessary permits that may be required to carry out its operations in the future.

Income and other taxes

As in many emerging markets, the taxation system in Kazakhstan is relatively new and is characterized by numerous taxes and frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However the interpretations of relevant authorities could differ and the effect the on financial results, if the authorities are successful in enforcing their interpretations, could be significant.

Going Concern Risk

The re-gaining of control of the Kazakhstan Subsidiaries effective September 15, 2009 combined with the financing done in 2010 and the conversion to share capital of the secured debentures

significantly reduced Alhambra's going concern risk. These funds however, are not sufficient to enable the Corporation to meet all its obligations and carry out significant exploration and development programs. During the three months ended March 31, 2012, the Corporation incurred a net loss of \$160 and the Corporation is not generating a sufficient amount of cash flow from operations to cover its commitments. To continue as a going concern, as well as implement exploration and development plans to sustain the Corporation and promote growth, significant additional capital will be required. The Corporation is currently attempting to raise additional funds, however, there is no assurance that it will be able to do so. However, in order for the Corporation to raise funds through the issue of common shares, it must first get approval from the government of Kazakhstan to issue common shares (see note 21 '*Government of Kazakhstan pre-emptive right*' to the unaudited consolidated financial statements and the Government of Kazakhstan pre-emptive right in this MD&A).

Significant Accounting Policies

The significant accounting policies used by the Corporation are disclosed in the notes to the Corporation's audited consolidated financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The following discussion outlines such accounting policies and is included in this MD&A to aid the reader in assessing the significant accounting policies and practices of the Corporation and likelihood of materially different results being reported. The Corporation's management reviews its estimates regularly.

The following significant accounting policies outline the major policies involving critical estimates.

Work in progress

Work in progress is determined by estimating the quantity of recoverable gold at the various stages of the production process. While the Corporation performs tests to estimate the recoverability of gold as well as uses various sampling techniques to measure the daily quantity of gold either stacked on or recovered from the heaps in each process, the actual quantity of recoverable gold can only be determined with certainty after the reserves have been completely mined and the project abandoned. Work in progress was written off at December 26, 2008 as a result of the loss of control of the Kazakhstan Subsidiaries. Upon re-gaining control the Corporation was required to record the work in progress at fair market value.

Mineral resources and reserves

A mineral resource is defined by the Canadian Institute of Mining, Metallurgy and Petroleum as a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospect for economic extraction. Mineral reserves are those parts of mineral resources which, after the application of all mining factors, estimated gold recovery and operating costs, are the estimated tonnage and grade which is the basis of an economically viable project. Proven and Probable mineral reserves differ by the degree of certainty of such reserves. By their nature, reserves are at best estimates and can only be determined once the reserves have been completely mined and the project abandoned. Changes in Proven and Probable mineral reserves impact the calculation of depletion and the evaluation for impairment as discussed in note 2 of the consolidated financial statements.

Upon re-acquisition, the Corporation was required to record mineral properties at fair market value. In determining the fair market value of the Kazakhstan Subsidiaries' assets, the Corporation made assumptions about reserves, recovery rates, prices, operating, general and administration costs and capital costs and deferred income tax rates as well as made assumptions in determining the Corporation's weighted average cost of capital used to discount the estimated annualized cash flows that were derived from the modeling work done.

Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are determined by discounting the expected future cash flows and therefore require an estimate to be made of the future liability plus the discount rate applicable.

Share-based payments

Compensation costs attributable to stock options granted by the Corporation are charged to earnings over the vesting periods of the options. The fair value calculation method adopted by the Corporation is the Black-Scholes model, which requires management to estimate interest rates, the expected life of the options and the expected volatility of the Corporation's share price over the life of the options. These estimates may be different than the actual interest rates, life and volatility.

Income tax accounting

The determination of the Corporation's income tax assets and liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax assets and liabilities may differ significantly from that estimated and recorded by management. This is further complicated by the fact that the taxation system in Kazakhstan is relatively new and characterized by frequent changes in legislation, official pronouncements and court decisions.

Selected Quarterly Data

| | Q1 2012 | Q4 2011 | Q3 2011 | Q2 2011 |
|-----------------------------------|-----------|------------|----------|------------|
| Gold sales (ozs) | 1,846 | 1,526 | 3,858 | 2,033 |
| Average gold price (\$/oz) | \$ 1,694 | \$ 1,773 | \$ 1,817 | \$ 1,514 |
| Revenue (\$000's) | \$ 3,127 | \$ 2,705 | \$ 7,012 | \$ 3,077 |
| Net profit (loss) (\$000's) | \$ (160) | \$ (2,578) | \$ 2,065 | \$ (2,065) |
| Basic earnings (loss) per share | \$ (0.00) | \$ (0.03) | \$ 0.02 | \$ (0.02) |
| Diluted earnings (loss) per share | \$ (0.00) | \$ (0.03) | \$ 0.02 | \$ (0.02) |

| | Q1 2011 | Q4 2010 | Q3 2010 | Q2 2010 |
|-----------------------------------|------------|------------|-----------|----------|
| Gold sales (ozs) | 1,770 | 2,870 | 4,378 | 3,523 |
| Average gold price (\$/oz) | \$ 1,392 | \$ 1,404 | \$ 1,277 | \$ 1,206 |
| Revenue (\$000's) | \$ 2,466 | \$ 4,030 | \$ 5,590 | \$ 4,247 |
| Net profit (loss) (\$000's) | \$ (1,686) | \$ (4,005) | \$ (289) | \$ 19 |
| Basic earnings (loss) per share | \$ (0.01) | \$ (0.05) | \$ (0.00) | \$ 0.00 |
| Diluted earnings (loss) per share | \$ (0.01) | \$ (0.05) | \$ (0.00) | \$ 0.00 |

The net profit recorded in the third quarter of 2011 is primarily the result of the reversal of interest and penalties accrued in the fourth quarter of 2010 related to the assessment by the Kazakhstan tax authorities for Historical Costs. The loss recorded in the fourth quarter of 2010 is due to lower gold sales revenue plus penalties and interest accrued as a result of the assessment by the tax authorities in Kazakhstan (see note 20 ("*Legal challenge of tax assessment*") to the March 31, 2012 audited consolidated financial statements and the Legal challenge of tax assessment of this MD&A).

Operations at Saga Creek are seasonal such that given no other major operational issues, it is expected that the gold sales during the cold weather months will be less than other months. As a result, monthly sales of gold during the months of December through May will be less than during other months of the year. The Corporation does heat the leaching solution to help offset some of the effects of the cold winters.

2012 Objectives

During 2012, Alhambra is planning to accelerate the development of its advanced "resource definition" exploration projects of Uzboy, Shirotnaia and Dombraly. The Corporation also anticipates advancing numerous early stage exploration projects and assessing a number of other gold targets of anticipated high potential over its vast mineral license area. These projects include Vasilkovskoe East, Zhanatobe, and targets along the 60 km Dombraly-Shirotnaia trend, located on the eastern flank of the Uzboy Project exploration license.

Alhambra is anticipating spending approximately \$3.0 million on exploration activities in 2012, subject to sufficient cash flow and suitable financing. The main focus will continue to be on Uzboy,

Dombraly and Shirotnaia with continuing resource development drilling and production development assessments, including metallurgical and gold recovery tests. In the second half of 2012 the Pre-Feasibility Study for the Uzboy primary gold (sulphide gold) production development project will be initiated. Utilizing the existing oxide heap leach production infrastructure should enhance the overall primary gold production economics while potentially reducing project start up time.

Alhambra will continue to position itself for ongoing growth and to create growing wealth for its shareholders through the ongoing exploitation of its vast exploration and development license. In addition, the Corporation will continue developing and upgrading its staff to meet its future challenges and objectives.

Alhambra will continue to work towards a dual listing of its common shares on an Asian stock exchange. The expected benefits of the dual listing are increased market liquidity and access to capital markets, which should support Alhambra's share price moving to reflect intrinsic asset value, and greater access to capital in the rapidly developing and buoyant Asian capital market. The pursuit of the dual listing was halted in 2011 due to the delays incurred in generating and analyzing drill results, and in generating the new and updated NI 43-101 resource reports and Preliminary Economic Assessment (Scoping Study).

The Corporation has filed an application with MINT to obtain approval to proceed at its discretion with equity financing to raise capital through the issue of common share equity in 2012 to the extent it is deemed necessary to help finance the 2012 exploration program and other corporate objectives. While Alhambra anticipates spending approximately \$3 million on exploration activities during 2012, given early approval from MINT and additional financing, Alhambra could expand this program up to \$7.5 million.